



# 华滋国际海洋工程有限公司

**Watts International Maritime Engineering Limited**

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2258



**INTERIM REPORT**

**2020**

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# Corporate Information

## Directors

### Executive directors

Mr. Wang Xiuchun (王秀春) (*Chairman*)  
Ms. Wan Yun (萬雲)  
(*concurrently as Chief executive officer*)  
Mr. Wang Lijiang (王利江)  
(*concurrently as joint company secretary*)  
Mr. Wang Likai (王利凱)  
Ms. Olive Chen

### Non-executive director

Mr. Wang Shizhong (王士忠)

### Independent non-executive directors

Mr. Wang Hongwei (王洪衛)  
Mr. How Sze Ming (侯思明)  
Mr. Sun Dajian (孫大建)

## Audit committee

Mr. Sun Dajian (孫大建) (*Chairman*)  
Mr. Wang Hongwei (王洪衛)  
Mr. How Sze Ming (侯思明)

## Remuneration committee

Mr. How Sze Ming (侯思明) (*Chairman*)  
Mr. Sun Dajian (孫大建)  
Mr. Wang Hongwei (王洪衛)

## Nomination committee

Mr. Wang Hongwei (王洪衛) (*Chairman*)  
Mr. Sun Dajian (孫大建)  
Mr. How Sze Ming (侯思明)

## Joint company secretaries

Mr. Wang Lijiang (王利江)  
Ms. Zhang Xiao (張瀟) (*ACIS, ACS*)

## Authorised representatives

Ms. Wan Yun (萬雲)  
Ms. Zhang Xiao (張瀟)

## Registered address in the Cayman Islands

4th Floor, Harbour Place  
103 South Church Street  
PO Box 10240  
Grand Cayman, KY1-1002  
Cayman Islands

## Principal place of business and headquarters in the PRC

5/F, Tower 17  
2816 Yixian Road  
Baoshan District, Shanghai, the PRC

## Principal place of business in Hong Kong

40th Floor, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai, Hong Kong

## Auditor

### PricewaterhouseCoopers

Certified Public Accountants  
Registered Public Interest Entity Auditor  
22/F, Prince's Building, Central, Hong Kong

## Legal adviser as to Hong Kong law

### Eversheds Sutherland

37/F, One Taikoo Place  
Taikoo Place, 979 King's Road, Quarry Bay  
Hong Kong



## **Principal share registrar and transfer office**

### **Harneys Fiduciary (Cayman) Limited**

4th Floor, Harbour Place  
103 South Church Street  
PO Box 10240  
Grand Cayman, KY1-1002  
Cayman Islands

## **Hong Kong share registrar**

### **Computershare Hong Kong Investor Services Limited**

Shops 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## **Principal banks**

Bank of Communications,  
Shanghai Sanmenlu Sub-branch  
Bank of Communications Co., Ltd.  
Hong Kong Branch

## **Company's website**

[www.shbt-china.com](http://www.shbt-china.com)

## **Stock code**

2258

# Management Discussion and Analysis

The Company is a leading port, waterway, marine engineering and municipal public engineering services provider in the PRC and is committed to the services of (i) port infrastructure, (ii) waterway engineering, (iii) construction of public infrastructure within cities, (iv) urban greening and (v) construction of building.

## Business Review

In the first half of 2020, the Group has steadily developed its core businesses, as well as actively expanding into new areas according to its strategic plan. However, as affected by the measures taken to respond to the COVID-19 outbreak, such as quarantine, lockdown and travel restrictions, the work schedule and the recognition of revenue for the Group's existing and ongoing construction in and outside China in the first half of the year was delayed.

The following table sets forth a breakdown of the Group's revenue by segment for the six months ended 30 June 2020:

	<b>Revenue recognised during the Reporting Period</b> (Unaudited) (RMB million)
Marine construction (including infrastructure construction of ports, waterway engineering and other services)	181.4
Municipal public construction (including construction of public infrastructure within cities, urban greening and construction of buildings)	465.4
Inter-segment elimination	<u>(44.0)</u>
Total	<u>602.8</u>

## Future Plans and Prospects

Notwithstanding the adverse impacts on the Group due to the COVID-19 outbreak, the Group will continue to consistently and actively monitor market conditions, take appropriate actions to alleviate the negative impact of the pandemic on the Group's business and performance, strengthen internal and project cost control, optimize and consolidate the Group's resources, explore the possibility of forming strategic alliances with other industry-leading companies, and expand the scope of new areas. These efforts aim to enhance the overall efficiency of the Group.

From the viewpoint of the domestic market, China is in a pivotal stage where it needs to transform its development mode, optimize its economic structure, and change the driving force. To accomplish the targets for economic and social development for the year and cope with the negative impact of the pandemic, investment in infrastructure will still be considered as one of the major means to maintain steady growth and make structural adjustments. With the commencement of construction of infrastructure projects in various cities, with more investment and construction the infrastructure industry will embrace a new round of rapid growth. By leveraging on its leading market position in China's port and waterway industries so as to capture the opportunities presented by the construction market, the Group will fully employ its competitive advantages in its core business while actively participating in projects involving the upgrading of marine infrastructure and new urbanization projects, etc. Building on the original industrial chain, with a view to broaden its sources of revenue, the Group will expand its environmental engineering business, develop water environment governance and water basin governance, and participate in ecological and environmental governance projects.

In the international market, the uncertainty brought by Sino-US trade frictions and the COVID-19 outbreak have exacerbated the global economic upheaval, further complicate the international situation and increasing overseas security risk. The Group will closely monitor changes in the international situation, keeping up with the latest developments in national diplomacy and foreign trade, and grasping that investment and infrastructure development are still important solutions for major countries in the world to revitalize the economy. The Group will continue to pursue the Belt and Road Initiative (BRI) while implementing the strategy of "going global", to blaze new trails, pioneering, innovating and overcoming difficulties. In addition, the Group will proactively expand its share in the construction markets into neighboring countries and regions and further increase its overall revenue, by going beyond the existing market in Indonesia and Brunei.

## Financial Overview

### Revenue

The Group's consolidated revenue in the first half of 2020 was RMB602.8 million, representing a year-on-year decrease of approximately 30.0% from RMB861.7 million in the same period of last fiscal year. The main operation income was divided into marine construction segment, and municipal public construction segment this year, with revenues of RMB181.4 million and RMB465.4 million, respectively (all before elimination of inter-segment transactions). Revenues from the PRC and Southeast Asia in 2020 were RMB560.5 million and RMB42.3 million, respectively. The decrease in revenue in the first half of 2020 was mainly attributable to (among other things) the impact of the COVID-19 outbreak in the first half of 2020 (such as quarantine, lockdown and travel restrictions), which led to the delay of work schedule for the Group's existing and ongoing construction in and outside China in the first half of the year.

### Cost of sales and profits from main operations

The consolidated cost of sales in the first half of 2020 was RMB528.8 million, representing a decrease of 29.8% from RMB752.8 million in the first half of 2019. The costs of marine construction segment and municipal public construction segment in the first half of 2020 were RMB156.1 million and RMB416.7 million, respectively (all before elimination of inter-segment transactions). In the first half of 2020, cost incurred in the PRC and Southeast Asia was RMB490.8 million and RMB38.0 million, respectively.

Cost of sales mainly consists of the cost of used raw materials and consumables and subcontracting costs. In the first half of 2020, cost of used raw materials and consumables and subcontracting costs were RMB297.6 million and RMB179.4 million, representing a decrease of 36.9% and 22.8% from the first half of 2019 respectively. The Group's profit from main operations largely depends on the location and composition of the project. In the first half of 2020, the Group's consolidated profit from main operations was RMB74.0 million, a decrease of 32.0% from RMB108.9 million in the first half of 2019. The gross profit from the marine construction segment, and municipal public construction segment in the first half of 2020 was RMB25.3 million and RMB48.7 million, respectively (all before elimination of inter-segment transactions). The gross profit from the PRC and Southeast Asia was RMB69.7 million and RMB4.3 million, respectively.

Operating profit in the first half of 2020 was RMB30.7 million, representing a decrease of 46.4% from RMB57.3 million in the first half of 2019, mainly due to (among other things) the impact of the COVID-19 outbreak in the first half of 2020 (such as quarantine, lockdown and travel restrictions), which led to the delay of work schedule for the Group's existing and ongoing construction in and outside China in the first half of the year.

### Administrative expenses

The administrative expenses in the first half of 2020 was RMB40.7 million, representing a decrease of 12.3% compared to RMB46.4 million in the first half of 2019, primarily because the Company actively controlled expenses and improved office efficiency this year.

### Income tax expense

The Group's income tax expense in the first half of 2020 was RMB3.1 million, representing a decrease of 48.5% compared to RMB6.0 million in the first half of 2019, mainly due to the decrease of the profit before tax in first half of 2020 and the Group obtained new and high-technology enterprise recognition and which was entitled to preferential income tax rate by the end of 2019.

### Trade and other receivables

The Group's net trade and other receivables decreased to RMB1,671.6 million as of 30 June 2020 (as of 31 December 2019: RMB1,856.8 million), which mainly comprised of progress receivables on projects, receivables on project completion, delivery and settlement, and retention receivables on completed projects. The decrease of trade and other receivables in the first half of 2020 was mainly due to the completion of some projects and the collection of payments due. The Group has assessed the expected credit losses and has made proper provisions for impairment losses. The Group's net contract assets decreased by RMB32.8 million to RMB830.5 million as at 30 June 2020 from RMB863.3 million as at 31 December 2019.

### **Trade and other payables**

The Group's trade and other payables decreased to RMB2,474.7 million as at 30 June 2020 (as at 31 December 2019: RMB2,674.9 million), mainly because part of the payment was made in accordance with the payment treaty, and the procurement and subcontracting items for the newly commenced projects were not yet due for payment.

### **Current assets, capital structure, and gearing ratio**

The Group maintained a healthy liquidity position with net current asset and cash and cash equivalents of approximately RMB486.3 million (as of 31 December 2019: RMB389.8 million) and RMB514.6 million (as of 31 December 2019: RMB471.7 million), respectively as at 30 June 2020.

The Group's gearing ratio (calculating by dividing total liabilities by total assets) as at 30 June 2020 was 79.8% (as of 31 December 2019: 80.9%). The Group's bank borrowings as at 30 June 2020 were RMB56.3 million which are denominated in RMB and with fixed interest rate.

### **Charges on assets**

As of 30 June 2020, the Group had no charges on assets.

### **Foreign exchange**

Operations of the Group are mainly conducted in RMB, HK\$, BND, US\$ and IDR. The Group did not adopt any hedging policy and the Directors considered that the exposure to foreign exchange risks can be mitigated by using the Major Currencies (i) as principal currencies for contracts entered into by and between the Group and its customers; and (ii) to settle payments to our suppliers and operating expenses where possible. In the event that settlements from the Group's customers are received in a currency other than the Major Currencies, such currency will be retained for payment of operating expenditures when necessary and the remaining amount will be converted to HK\$ or US\$ promptly.

### **Capital expenditures and commitments**

The Group generally finances its capital expenditures by cash flows generated from its operation, and the net proceeds from the Listing provide an additional source of funding to meet its capital expenditure plan. As of 30 June 2020, the Group had no major capital commitments.

### **Contingent liabilities**

As of 30 June 2020, the Group had no contingent liabilities.

### **Material acquisition and disposal of subsidiaries, associates and joint ventures**

As of 30 June 2020, the Group had no material investment, acquisition and disposal.

### **Significant investment held**

As of 30 June 2020, the Group held no significant investment.



### Use of Proceeds

The Group's net proceeds from the Listing were approximately HK\$202.9 million. During the Reporting Period, the utilisation of net proceeds raised by the Group from the Listing is as below:

(HK\$ in million)

	Estimated use of proceeds	Utilised up to 30 June 2020	Unutilised up to 30 June 2020	Expected timeline for utilisation of the unutilised net proceeds (Note)
Funding our capital needs and cash flow under our existing projects in the PRC and Southeast Asia	65.5	21.3	44.2	December 2021 or before
Purchasing new vessels and construction equipment	35.7	24.4	11.3	December 2021 or before
Recruiting talent	13.0	5.1	7.9	December 2021 or before
Strategic equity investment	68.8	—	68.8	December 2021 or before
General working capital	19.9	19.9	—	—
	<u>202.9</u>	<u>70.7</u>	<u>132.2</u>	

*Note:* The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

During the six months ended 30 June 2020, the proceeds raised by the Company from the Listing were utilised, or were proposed to be utilised, according to the intentions previously disclosed by the Company, and there was no material change or delay in the use of proceeds.

### Interim Dividend

The Board resolved the declaration of an interim dividend of HK0.80 cent (equivalent to approximately RMB0.73 cent) per ordinary share, for the six months ended 30 June 2020 (six months ended 30 June 2019: HK1.2 cents) payable on Friday, 30 October 2020 to the Shareholders whose names appear on the register of members of the Company on Friday, 18 September 2020.

### Closure of Register of Members

For determining the entitlement of the Shareholders to the interim dividend, the register of members of the Company will be closed from Wednesday, 16 September 2020 to Friday, 18 September 2020, both days inclusive, during which period no transfer of shares shall be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 15 September 2020.

### Employees and Remuneration Policies

As at 30 June 2020, the Group had a total of 498 employees. In particular, Third Harbor Maritime had a total of 141 employees, Benteng Indonesia had a total of 128 employees (including 24 Chinese employees who are appointed by Third Harbor Maritime, they have entered into employment contracts with Third Harbor Maritime, and we have purchased the relevant insurance for them in both China and Indonesia). Benteng Brunei had a total of 4 employees (including 3 Chinese employees who are appointed by Third Harbor Maritime, they have entered into employment contracts with Third Harbor Maritime, and we have purchased the relevant insurance for them in China). Shanghai Watts Benteng Municipal Public Engineering Co., Ltd. and its subsidiaries had a total of 225 employees. Our employees have been paid remuneration in accordance with relevant laws and regulations in China, Indonesia and Brunei. The Company pays appropriate salary and bonuses with reference to actual practice. Other related benefits include pensions, medical insurance, unemployment insurance and housing allowances. The staff costs, including Directors' emoluments, of the Group were approximately RMB22.4 million for the Reporting Period (six months ended 30 June 2019: approximately RMB24.8 million).

The remuneration committee of the Company has been established to provide recommendations to the Board on the overall remuneration policy and structure of the Group's Directors and senior management, review the remuneration and ensure that no Directors have determined their own remuneration.

During the Reporting Period, the Group did not experience any strikes, lockouts or major labour disputes affecting operations, or encounter any major difficulties in hiring and retaining qualified employees.

## Disclosure of Interests and Other Information

### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 30 June 2020, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director/ Chief Executive	Capacity/Nature of Interest	Number of Shares held	Shareholding percentage in the Shares
Mr. Wang Xiuchun (王秀春) <sup>(3)</sup>	Interest held jointly with another person	419,792,836	50.86%
Mr. Wang Shizhong (王士忠) <sup>(3)</sup>	Interest in a controlled corporation	315,467,967	
	Interest held jointly with another person	104,324,869	
		419,792,836	50.86%
Mr. Wang Likai (王利凱) <sup>(3)</sup>	Interest held jointly with another person	419,792,836	50.86%
Ms. Olive Chen <sup>(4)</sup>	Interest in a controlled corporation	55,714,444	6.75%

Notes:

- All interests stated are long positions.
- The calculation is based on the total number of 825,400,000 Shares in issue as at 30 June 2020.
- HuaZi Holding Limited is beneficially and wholly owned by Mr. Wang Shizhong. By virtue of the SFO, Mr. Wang is deemed to be interested in the 315,467,967 Shares held by HuaZi Holding Limited.

Ye Wang Zhou Holding Limited, which holds 104,324,869 Shares, is owned as to 46.76%, 32.40%, 8.10%, 7.34% and 5.40% by Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌), Mr. Wang Shiqin (王士勤) and Mr. Wang Likai (王利凱), respectively. By virtue of the Acting-in-concert Confirmation, Mr. Wang Shizhong (王士忠), Mr. Wang Xiuchun (王秀春) and Mr. Wang Likai (王利凱) are deemed to be interested in each other's interest in the Shares.

- Worldlink Resources Limited is beneficially and wholly-owned by Ms. Olive Chen, as such, Ms. Olive Chen is deemed to be interested in the 55,714,444 Shares held by Worldlink Resources Limited.

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations which would have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules.

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 30 June 2020, so far as is known to the Directors, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and the chief executives of the Company) or companies had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares	Shareholding percentage in the Shares
HuaZi Holding Limited <sup>(3)(6)</sup>	Beneficial Owner	315,467,967	38.22%
Ye Wang Zhou Holding Limited <sup>(4)(5)</sup>	Beneficial Owner	104,324,869	12.64%
Mr. Ye Kangshun (葉康舜) <sup>(3)(4)(5)(6)</sup>	Interest in a controlled corporation	104,324,869	
	Interest held jointly with another person	315,467,967	
		419,792,836	50.86%
Ms. Zhou Meng (周萌) <sup>(3)(4)(5)(6)</sup>	Interest held jointly with another person	419,792,836	50.86%
Mr. Wang Shiqin (王士勤) <sup>(3)(4)(5)(6)</sup>	Interest held jointly with another person	419,792,836	50.86%
HZ&BT Development Holding Limited	Beneficial Owner	143,542,720	17.39%
Worldlink Resources Limited <sup>(7)</sup>	Beneficial Owner	55,714,444	6.75%

### Notes:

- All interests stated are long positions.
- The calculation is based on the total number of 825,400,000 Shares in issue as at 30 June 2020.
- HuaZi Holding Limited is beneficially and wholly owned by Mr. Wang Shizhong. By virtue of the SFO, Mr. Wang is deemed to be interested in the Shares held by HuaZi Holding Limited.
- Pursuant to the Acting-in-concert Confirmation, Mr. Wang Shizhong (王士忠), Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌), Mr. Wang Shiqin (王士勤) and Mr. Wang Likai (王利凱) have acknowledged and confirmed, among other things, that they are parties acting in concert (having the meaning as ascribed thereto in the Takeovers Code). As such, each of them is deemed to be interested in each other's interest in the Shares.
- Ye Wang Zhou Holding Limited, which holds 104,324,869 Shares, is owned as to 46.76%, 32.40%, 8.10%, 7.34% and 5.40% by Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌), Mr. Wang Shiqin (王士勤) and Mr. Wang Likai (王利凱), respectively.
- By virtue of the Acting-in-concert Confirmation, each of Mr. Wang Shizhong (王士忠), Mr. Ye Kangshun (葉康舜), Mr. Wang Xiuchun (王秀春), Ms. Zhou Meng (周萌), Mr. Wang Shiqin (王士勤) and Mr. Wang Likai (王利凱) is deemed to be interested in the Shares held by HuaZi Holding Limited and Ye Wang Zhou Holding Limited.
- Worldlink Resources Limited is beneficially and wholly owned by Ms. Olive Chen. By virtue of the SFO, Ms. Olive Chen is deemed to be interested in the Shares held by Worldlink Resources Limited.



## Disclosure of Interests and Other Information

Save as disclosed above, as at 30 June 2020, none of the Directors of the Company was aware of that any persons (other than Directors or chief executives of the Company) or companies had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **Share Option Scheme**

The Company adopted a share option scheme pursuant to the written resolutions of the then Shareholders on 19 October 2018, which enabled the Company to grant share options to the eligible persons as an incentive and reward for their best contribution to the Group. No share options have been granted, exercised or cancelled since then and as of 30 June 2020.

### **Share Award Scheme**

On 24 March 2020, the Company has adopted the Share Award Scheme to, among other things, recognize the contributions of the eligible persons of the Share Award Scheme and motivate them to strive for the future development and expansion of the Group. The Share Award Scheme is initially valid and effective for the period commencing on the adoption date (i.e. 24 March 2020) and ending on the business day immediately prior to the 10th anniversary of the adoption date. The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. No Shareholders' approval was required to adopt the Share Award Scheme.

The summary of the principal terms and conditions of Share Award Scheme were set out in the Company's announcement dated 24 March 2020.

### **Corporate Governance Code**

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted all code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions under CG Code during the Reporting Period.

## Change in Directors' Information

Below are the changes in directors' information, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. Mr. Wang Likai (王利凱) was appointed as an executive director of the Company on 18 June 2020. Upon the recommendation of the remuneration committee and the approval of the board of directors of the Company, Mr. Wang Likai (王利凱)'s annual salary is RMB350,000 and he can receive discretionary bonuses that may be determined by the board of directors;
2. Mr. Wang Shizhong (王士忠) was redesignated as a non-executive director of the Company on 18 June 2020. Upon the recommendation of the remuneration committee and the approval of the board of directors of the Company, Mr. Wang Shizhong (王士忠) will not receive any director's remuneration for his services; and
3. Mr. How Sze Ming (侯思明), an independent non-executive Director, resigned as an independent non-executive director of Forgame Holdings Limited (Stock Code: 484) on 29 April 2020.

Save as disclosed above, there is no other change in Director's information, which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

## Model Code for Securities Transactions by Directors

The Group has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors have confirmed that they have fully complied with the relevant requirements set out in the Company's own code of conduct and the Model Code during the Reporting Period.

## Review of Interim Report by Audit Committee

The audit committee of the Company has reviewed this interim report. There is no disagreement by the Audit Committee with the accounting treatment policy adopted by the Company.

By order of the Board

**Watts International Maritime Engineering Limited**  
**Wang Xiuchun (王秀春)**  
*Chairman and Executive Director*

Shanghai, 27 August 2020

# Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 Unaudited RMB'000	2019 (restated) Unaudited RMB'000
Revenue	6	602,832	861,666
Cost of sales	6	(528,793)	(752,775)
<b>Gross profit</b>		<b>74,039</b>	108,891
Selling and distribution expenses		(1,509)	(1,636)
Administrative expenses		(40,702)	(46,367)
Net impairment losses on financial assets	4.1(b)	(4,456)	(7,740)
Other operating expenses		(426)	(250)
Other income		2,212	4,038
Other gains — net		1,570	322
<b>Operating profit</b>	7	<b>30,728</b>	57,258
Finance income		5,102	1,910
Finance costs		(9,526)	(8,443)
Finance costs — net		(4,424)	(6,533)
<b>Profit before income tax</b>		<b>26,304</b>	50,725
Income tax expense	8	(3,069)	(5,957)
<b>Profit for the period</b>		<b>23,235</b>	44,768
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		(350)	1,839
Changes in the fair value of equity instruments at fair value through other comprehensive income		(1,557)	—
<b>Other comprehensive income for the period net of tax</b>		<b>(1,907)</b>	1,839
<b>Total comprehensive income for the period attributable to the Shareholders of the Company</b>		<b>21,328</b>	46,607
<b>Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):</b>			
— Basic earnings per share	9	2.82	5.42
— Diluted earnings per share	9	2.82	5.42

The above condensed consolidated interim statement of comprehensive income should be read in conjunction with the accompanying notes.

# Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2020

	<i>Note</i>	<b>30 June 2020 Unaudited RMB'000</b>	31 December 2019 Audited RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>103,716</b>	110,628
Right-of-use assets		<b>15,648</b>	16,582
Intangible assets		<b>475</b>	603
Contract assets	6	<b>286,236</b>	346,533
Trade and other receivables	11	<b>111,755</b>	114,096
Deferred tax assets		<b>7,772</b>	9,751
Financial assets at fair value through other comprehensive income	4.3	<b>3,766</b>	4,844
		<b>529,368</b>	603,037
<b>Current assets</b>			
Inventories		<b>30,321</b>	31,978
Contract assets	6	<b>544,268</b>	516,804
Trade and other receivables	11	<b>1,559,801</b>	1,742,741
Financial assets at fair value through profit or loss	4.3	<b>50</b>	50
Restricted cash	12	<b>69,820</b>	59,023
Cash and cash equivalents	12	<b>514,625</b>	471,711
		<b>2,718,885</b>	2,822,307
<b>Total assets</b>		<b>3,248,253</b>	3,425,344



## Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2020

	Note	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	13	7,303	7,303
Shares held for employee share scheme		(1,986)	—
Share premium		296,997	313,609
Other reserves		14,746	14,328
Retained earnings		339,733	318,823
<b>Total equity</b>		<b>656,793</b>	654,063
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	15	26,750	29,000
Lease liabilities		3,920	4,657
Trade and other payables	14	327,320	301,885
Deferred tax liabilities		906	3,198
		<b>358,896</b>	338,740
<b>Current liabilities</b>			
Lease liabilities		1,579	1,810
Borrowings	15	29,500	29,500
Trade and other payables	14	2,147,398	2,372,979
Income tax payables		3,288	13,871
Contract liabilities	6	50,799	14,381
		<b>2,232,564</b>	2,432,541
<b>Total liabilities</b>		<b>2,591,460</b>	2,771,281
<b>Total equity and liabilities</b>		<b>3,248,253</b>	3,425,344

The above condensed consolidated interim statement of financial position should be read in conjunction with the accompanying notes.

# Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2020

	Attribute to the Shareholders					
	Share capital RMB'000	Shares held for employee share scheme RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
<b>Balance at 1 January 2019, as previously reported</b>	7,303	—	322,551	12,876	189,485	532,215
Business combination under common control	—	—	—	180,842	316,905	497,747
<b>Balance at 1 January 2019, as restated</b>	7,303	—	322,551	193,718	506,390	1,029,962
<b>Comprehensive income</b>						
Profit for the period	—	—	—	—	44,768	44,768
Currency translation differences	—	—	—	1,839	—	1,839
<b>Total comprehensive income</b>	—	—	—	1,839	44,768	46,607
Appropriation to statutory reserves	—	—	—	1,160	(1,160)	—
Deemed contribution from shareholders	—	—	—	—	2,441	2,441
<b>Balance at 30 June 2019 (unaudited)</b>	7,303	—	322,551	196,717	552,439	1,079,010
<b>Balance at 1 January 2020</b>	7,303	—	313,609	14,328	318,823	654,063
<b>Comprehensive income</b>						
Profit for the period	—	—	—	—	23,235	23,235
Currency translation differences	—	—	—	(350)	—	(350)
Changes in the fair value of equity instruments at fair value through other comprehensive income	—	—	—	(1,557)	—	(1,557)
<b>Total comprehensive income</b>	—	—	—	(1,907)	23,235	21,328
Appropriation to statutory reserves	—	—	—	2,325	(2,325)	—
Dividends distribution to shareholders	—	—	(16,612)	—	—	(16,612)
Acquisition of shares for employee share scheme	—	(1,986)	—	—	—	(1,986)
<b>Balance at 30 June 2020 (unaudited)</b>	7,303	(1,986)	296,997	14,746	339,733	656,793

The above condensed consolidated interim statement of changes in equity should be read in conjunction with the accompanying notes.

# Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 Unaudited RMB'000	2019 Unaudited RMB'000 (restated)
<b>Cash flows from operating activities</b>			
Cash generated from operations		60,203	55,719
Income tax paid		(13,002)	(33,124)
<b>Net cash generated from operating activities</b>		<b>47,201</b>	22,595
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(3,230)	(4,013)
Purchase of intangible assets		—	(176)
Purchase of financial assets at fair value through profit or loss		—	(14,000)
Proceeds from sale of financial assets at fair value through profit or loss		—	36,337
Proceeds from disposal of property, plant and equipment		15	—
Interest received		3,392	2,561
Net increase of amounts due from shareholders		—	(12,143)
<b>Net cash generated from investing activities</b>		<b>177</b>	8,566
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	15	20,000	20,000
Repayments of borrowings	15	(22,250)	(2,000)
Interest paid		(1,720)	(1,039)
Lease payment		(1,112)	(280)
Acquisition of shares for employee share scheme		(1,986)	—
<b>Net cash (used in)/generated from financing activities</b>		<b>(7,068)</b>	16,681
<b>Net increase in cash and cash equivalents</b>		<b>40,310</b>	47,842
Cash and cash equivalents at beginning of the period		471,711	484,461
Effects of exchange rate changes on cash and cash equivalents		2,604	605
<b>Cash and cash equivalents at the end of the period</b>		<b>514,625</b>	532,908

The above condensed consolidated interim statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

## 1 GENERAL INFORMATION AND REORGANISATION

Watts International Maritime Engineering Limited (the “**Company**”) was incorporated in the Cayman Islands on 20 December 2017 as an exempted company with limited liability under the Companies Law, Cap.22 (Law of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company, an investment holding company, and its subsidiaries (together, “**the Group**”) provide port, waterway and marine engineering business, including infrastructure construction of ports and waterway engineering services and municipal public construction business after completion of the acquisition of the “**Acquired Group**” as described in Note 3. The ultimate controlling shareholders are Mr. Wang Shizhong, Mr. Ye Kangshun, Mr. Wang Xiuchun, Ms. Zhou Meng, Mr. Wang Shiqin, Mr. Wang Likai (“**Controlling Shareholders**”), who are parties acting collectively and have been controlling the group companies since their incorporation.

The Company has its share listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial statements of the Group has been prepared as if the Group had always been in existence throughout both periods presented.

The condensed consolidated interim financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated, and have been approved for issue by the Board of Directors (the “**Board**”) on 27 August 2020.

The condensed consolidated interim financial statements have not been audited.

### Significant events and transactions

In the first half year of 2020, the Coronavirus Disease 2019 (“**COVID-19**”) had certain impact on the Group’s business and economic activities in the domestic and oversea markets. A series of precautionary and control measures have been and continued to be implemented, including postponement of work resumption, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing. Due to the above control measures, the resumption of business by the Group’s customers and suppliers has been delayed, and it has resulted in a decrease in revenue and the related costs.



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 2 BASIS OF PREPARATION

This condensed consolidated interim financial statements for the half-year reporting period ended 30 June 2020 has been prepared in accordance with Accounting Standard HKAS 34 *Interim Financial Reporting*.

The condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial statements. Accordingly, these statements are to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019 and any public announcements made by the Company during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

#### (a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

These standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments:

		<b>Effective for annual periods beginning on or after</b>
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to HKFRS16	Covid-19-related Rent Concessions	1 June 2020

## 2 BASIS OF PREPARATION (Continued)

### (b) New and amended standards and interpretations not yet adopted

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

		<b>Effective for annual periods beginning on or after</b>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

## 3 APPLICATION OF BUSINESS COMBINATIONS UNDER COMMON CONTROL

On 14 November 2019, Shanghai Third Harbor Benteng Maritime Engineering CO., (“**Third Harbor Maritime**”), a wholly-owned subsidiary of the Company, as the purchaser and Shanghai Watts Gallop Holding Group Co., Ltd. (“**Watts Gallop**”), a company also controlled by the Controlling Shareholders, as the vendor entered into a sale and purchase agreement, pursuant to which Watts Gallop agreed to sell, and Third Harbor Maritime agreed to purchase, the entire issued share capital of Shanghai Watts Benteng Municipal Public Engineering Co., Ltd. and its subsidiaries (the “**Acquired Group**”), at an initial cash consideration of RMB170,000,000.

The Acquired Group is principally engaged in municipal public construction business in the PRC focusing on (i) construction of public infrastructure within cities which includes public roads, bridges, and tunnels; (ii) urban greening; and (iii) construction of buildings.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 3 APPLICATION OF BUSINESS COMBINATIONS UNDER COMMON CONTROL (Continued)

The consideration to be satisfied by the Group in the following manner:

- (i) assumption of debt in the amount of RMB84,490,000 owed by Watts Gallop to the Acquired Group (the “**Debt**”). The Debt represents the non-trade advances resulting from an intra-group funding arrangement within entities controlled by the Controlling Shareholders of Watts Gallop from time to time as at 31 August 2019, which was mainly for working capital purpose, and was interest-free and repayable on demand; and
- (ii) a sum of RMB85,510,000 was paid/shall be payable by Third Harbor Maritime to Watts Gallop by the following instalments by cash:
  - i) RMB10,000,000 (equivalent to approximately HK\$11,111,111) was paid in December 2019, after the condition precedent was satisfied;
  - ii) RMB25,000,000 (equivalent to approximately HK\$27,777,778) shall be paid on or before 31 December 2020;
  - iii) RMB25,000,000 (equivalent to approximately HK\$27,777,778) shall be paid on or before 31 December 2021; and
  - iv) RMB25,510,000 (equivalent to approximately HK\$28,355,556) shall be paid on or before 31 December 2022.

The acquisition was considered as a business combination under common control as Third Harbor Maritime and the Acquired Group are both ultimately controlled by Controlling Shareholders. Under HKFRS, the acquisition of the Acquired Group was accounted for using merger accounting in accordance with Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” (“**AG 5**”) issued by the HKICPA. Accordingly, the Acquired Group was included in the condensed consolidated financial statements from the beginning of the earliest period presented as if the Acquired Group had always been part of the Group. As a result, the Group has restated its comparative amounts of the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2019 by including the operating results of the Acquired Group and eliminated its transactions with the Acquired Group, as if the acquisition had been completed on the earliest date being presented, i.e. 1 January 2019.

The following are reconciliations of the effects arising from the accounting of common control combination in accordance with AG 5 on the Group’s condensed consolidated interim statement of comprehensive income in connection with the Acquired Group for the period ended 30 June 2019.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 3 APPLICATION OF BUSINESS COMBINATIONS UNDER COMMON CONTROL (Continued)

Effect on the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2019 (unaudited):

	<b>The Group (before business combination under common control) RMB'000</b>	<b>Effect of business combination under common control RMB'000</b>	<b>Consolidated RMB'000</b>
Revenue	469,319	392,347	861,666
Cost of sales	(397,005)	(355,770)	(752,775)
<b>Gross profit</b>	72,314	36,577	108,891
Selling and distribution expenses	(1,403)	(233)	(1,636)
Administrative expenses	(27,158)	(19,209)	(46,367)
Net impairment losses on financial assets	(9,308)	1,568	(7,740)
Other operating expenses	(76)	(174)	(250)
Other income	3,118	920	4,038
Other gains — net	765	(443)	322
<b>Operating profit</b>	38,252	19,006	57,258
Finance income	25	1,885	1,910
Finance costs	(608)	(7,835)	(8,443)
<b>Profit before income tax</b>	37,669	13,056	50,725
Income tax expense	(2,460)	(3,497)	(5,957)
<b>Profit for the period</b>	35,209	9,559	44,768
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit and loss</i>			
Currency translation differences	1,839	—	1,839
<b>Other comprehensive income for the period, net of tax</b>	1,839	—	1,839
<b>Total comprehensive income for the period attributable to the Shareholders of the Company</b>	37,048	9,559	46,607
<b>Earnings per share for profit attributable to the Shareholders of the Company (expressed in RMB cents per share):</b>			
— Basic and diluted	4.27	1.15	5.42



# Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

## 4 FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

There has been no change in the risk management policies approved by the board of directors since year end.

#### (a) Market risk

##### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group entities collect most of the revenue and incur most of the expenditures in respect of their functional currencies. Foreign exchange risk arises from various currency exposures primarily through proceeds received from customers and shareholders, and payments to the suppliers that are denominated in a currency other than the Group's entities' functional currency. The currencies giving rise to this risk are primarily US dollar ("US\$") and Brunei dollar ("BN\$"), as certain purchase and sales of the Group is denominated in US\$ and BN\$. The Group also has certain amounts cash and bank balances denominated in HK dollar ("HK\$") and US\$, which are exposed to foreign currency translation risk. The management of the Group considers that the Group's exposure to foreign currency exchange risk is not significant due to the most of the functional currency of the entities in Group is the same as the transaction currency.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At 30 June 2020, if RMB had strengthened/weakened by 5% against the US\$, BN\$ and HK\$ with all other variables held constant, the total profit for the period ended 30 June 2020 would have been RMB10,411,000 lower/higher (period ended 30 June 2019: RMB11,210,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of US\$, BN\$ and HK\$ denominated cash and cash equivalents, trade and other receivables and trade and other payables.

## 4 FINANCIAL RISK MANAGEMENT (Continued)

### 4.1 Financial risk factors (Continued)

#### (a) Market risk (Continued)

##### (ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than bank deposits. The Group has not used any financial instrument to hedge its exposure to cash flow and fair value interest rate risks.

#### (b) Credit risk

Credit risk arises from restricted cash, cash and cash equivalents, trade receivables, retention receivables, long-term trade receivables and contract assets. The carrying amounts of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

##### (i) Risk management

To manage the risk with respect to cash and cash equivalents and restricted cash, the Group placed them in banks with highly reputation.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customers' ability to meet its obligations
- actual or expected significant changes in the operating results of customers
- significant increases in credit risk on other financial instruments of customers
- significant changes in the expected performance and behaviour of customers, including changes in the payment status of customers in the Group and changes in the operating results of the customers.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (ii) Impairment of financial assets

The Group has several types of financial assets that are subject to the expected credit loss model, while they have no significant impact on the financial statements, except for the following ones:

- Trade and retention receivables from providing maritime construction services and municipal public construction services.
- Contract assets relating to marine construction contracts and municipal public construction contracts.
- Long-term trade receivables from providing municipal public construction services.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables, retention receivables, long-term trade receivables and contract assets.

To measure the expected credit losses, trade receivables, retention receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of providing marine construction services and municipal public construction services over a period of 36 months before 30 June 2020 or 30 June 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered evidence from external sources including the relevant public search results relating to the financial circumstances of the customers and expected behaviour including method of payments or payments period, and accordingly adjusts the historical loss rates based on expected changes in these factors.

## 4 FINANCIAL RISK MANAGEMENT (Continued)

### 4.1 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

##### (ii) Impairment of financial assets (Continued)

###### *Trade and retention receivables*

For trade and retention receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. The customers of certain long ageing trade and retention receivables are related to some large projects with duration over one year. Since these customers have strong financial ability with low credit risk, and historically and subsequently, there was rare actual default for these receivables. As at 31 December 2019, the Group has assessed that the expected loss rate for such trade and retention receivables was immaterial. No loss allowance provision for trade and retention receivables of approximately RMB262,581,000 relating to such customers was recognised as at 31 December 2019. As at 30 June 2020, no such kind of customers were identified by the Group.

Individually impaired trade receivables and retention receivables are related to customers who are experiencing unexpected economic difficulties. The Group expects that the entire amounts of the receivables will have difficulty to be recovered and has recognised impairment losses. The fair value of individually impaired trade receivables and retention receivables were nil. For the six months ended 30 June 2020, no individually impaired trade and retention receivables were identified (2019: Nil).

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (ii) Impairment of financial assets (Continued)

##### Trade and retention receivables (Continued)

As at 30 June 2020 and 31 December 2019, the remaining trade receivables and retention receivables have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of expected credit loss:

##### i) Marine construction services group

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
<b>Trade receivables</b>					
<b>At 30 June 2020 (unaudited)</b>					
Expected loss rate	0.91%	1.88%	5.81%	10.24%	
Gross carrying amount	390,165	209,312	89,328	71,868	760,673
<b>Total loss allowance provision</b>	<b>3,537</b>	<b>3,925</b>	<b>5,189</b>	<b>7,357</b>	<b>20,008</b>
<b>Retention receivables</b>					
<b>At 30 June 2020 (unaudited)</b>					
Expected loss rate	8.75%	9.21%	10.00%	11.81%	
Gross carrying amount	51,585	43,765	52,219	49,234	196,803
<b>Total loss allowance provision</b>	<b>4,516</b>	<b>4,033</b>	<b>5,222</b>	<b>5,812</b>	<b>19,583</b>



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (ii) Impairment of financial assets (Continued)

##### Trade and retention receivables (Continued)

##### i) Marine construction services group (Continued)

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
<b>Trade receivables</b>					
<b>At 31 December 2019 (audited)</b>					
Expected loss rate	1.31%	2.54%	4.89%	10.33%	
Gross carrying amount (excluding receivables assessed individually)	<u>291,310</u>	<u>140,256</u>	<u>134,099</u>	<u>12,037</u>	<u>577,702</u>
<b>Total loss allowance provision</b>	<u>3,818</u>	<u>3,565</u>	<u>6,563</u>	<u>1,244</u>	<u>15,190</u>
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
<b>Retention receivables</b>					
<b>At 31 December 2019 (audited)</b>					
Expected loss rate	6.26%	7.63%	8.96%	10.99%	
Gross carrying amount (excluding receivables assessed individually)	<u>92,021</u>	<u>3,692</u>	<u>73,702</u>	<u>4,893</u>	<u>174,308</u>
<b>Total loss allowance provision</b>	<u>5,759</u>	<u>282</u>	<u>6,603</u>	<u>538</u>	<u>13,182</u>

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (ii) Impairment of financial assets (Continued)

##### Trade and retention receivables (Continued)

##### ii) Municipal public construction services group

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
<b>Trade receivables</b>					
<b>At 30 June 2020 (unaudited)</b>					
Expected loss rate	2.52%	6.35%	23.61%	27.07%	
Gross carrying amount	324,210	41,944	23,872	55,390	445,416
<b>Total loss allowance provision</b>	<b>8,170</b>	<b>2,663</b>	<b>5,636</b>	<b>14,995</b>	<b>31,464</b>
<b>Retention receivables</b>					
<b>At 30 June 2020 (unaudited)</b>					
Expected loss rate	8.30%	10.57%	18.34%	23.99%	
Gross carrying amount	79,885	335	1,465	14,843	96,528
<b>Total loss allowance provision</b>	<b>6,630</b>	<b>35</b>	<b>269</b>	<b>3,561</b>	<b>10,495</b>

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (ii) Impairment of financial assets (Continued)

##### Trade and retention receivables (Continued)

##### ii) Municipal public construction services group (Continued)

	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
<b>Trade receivables</b>					
<b>At 31 December 2019 (audited)</b>					
Expected loss rate	2.22%	6.48%	25.38%	28.83%	
Gross carrying amount	470,088	36,448	26,948	60,247	593,731
<b>Total loss allowance provision</b>	<b>10,436</b>	<b>2,362</b>	<b>6,839</b>	<b>17,369</b>	<b>37,006</b>
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
<b>Retention receivables</b>					
<b>At 31 December 2019 (audited)</b>					
Expected loss rate	8.18%	10.00%	13.98%	25.81%	
Gross carrying amount	89,117	1,340	1,298	12,727	104,482
<b>Total loss allowance provision</b>	<b>7,290</b>	<b>134</b>	<b>181</b>	<b>3,285</b>	<b>10,890</b>

##### Contract assets

Contract assets relate to unbilled work in progress which have substantially the same risk characteristics as the trade receivables for the same types of contract. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. Since the contract assets are still in performing and the payment is not due, the expected loss rates of contract assets are assessed to be 0.91% for marine construction and 2.52% for municipal public construction (2019: 1.31% and 2.22%), which are the same as that of trade receivables past due up to one year respectively. As at 30 June 2020, the loss allowance for provision for contract assets of marine construction and municipal public construction was approximately RMB3,594,000 and RMB10,716,000 (2019: RMB6,220,000 and RMB8,972,000).

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (ii) Impairment of financial assets (Continued)

##### Long-term trade receivables

Long-term trade receivables relate to a public-private-partnership project in municipal public construction services and are recognised as contract assets when the project is still performing and transferred to receivables after the project is finished. Since the customer is a government owned company with strong reputation and the payment is not due according to the contract, the expected loss rate for the long-term receivables is assessed to be the same as that of the trade receivables past due up to one year. As at 30 June 2020, the loss allowance for provision for long-term trade receivables was approximately RMB1,831,000 (2019: RMB1,773,000).

The loss allowance provision for trade receivables, retention receivables, long-term trade receivables and contract assets as at 30 June 2020 and 2019 reconciles to the opening loss allowance for that provision is as follows:

	Trade receivables RMB'000	Retention receivables RMB'000	Long- term trade receivables RMB'000	Contract assets RMB'000	Total RMB'000
<b>At 1 January 2019 (restated)</b>	<u>37,212</u>	<u>9,314</u>	<u>1,754</u>	<u>12,167</u>	<u>60,447</u>
Provision for/(reversal of) loss allowance recognised in consolidated statement of comprehensive income	8,388	865	179	(1,692)	7,740
Currency translation differences	<u>—</u>	<u>—</u>	<u>—</u>	<u>4</u>	<u>4</u>
<b>At 30 June 2019 (restated) (unaudited)</b>	<u>45,600</u>	<u>10,179</u>	<u>1,933</u>	<u>10,479</u>	<u>68,191</u>

**4 FINANCIAL RISK MANAGEMENT** (Continued)**4.1 Financial risk factors** (Continued)**(b) Credit risk** (Continued)*(ii) Impairment of financial assets (Continued)**Long-term trade receivables (Continued)*

	Trade receivables RMB'000	Retention receivables RMB'000	Long- term trade receivables RMB'000	Contract assets RMB'000	Total RMB'000
<b>At 1 January 2020 (audited)</b>	<b>52,196</b>	<b>24,072</b>	<b>1,773</b>	<b>15,192</b>	<b>93,233</b>
(Reversal of)/provision for loss allowance recognised in consolidated statement of comprehensive income	(728)	6,007	58	(881)	4,456
Currency translation differences	4	(1)	—	(1)	2
<b>At 30 June 2020 (unaudited)</b>	<b>51,472</b>	<b>30,078</b>	<b>1,831</b>	<b>14,310</b>	<b>97,691</b>

*Other receivables*

The Group adopts general approach for expected credit losses of other receivables and considers it has not significantly increased in credit risk from initial recognition. Thus, it is still in stage one and only 12-month expected credit losses are considered.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Group considered counter parties having a low risk of default and a strong capacity to meet contractual cash flow as performing. The directors of the Company believe that there is no material credit risk in the Group's outstanding balance of other receivable.

*Cash and cash equivalents*

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### 4.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (ii) Impairment of financial assets (Continued)

Net impairment losses on financial assets and contract assets recognised in profit or loss

During the six months ended 30 June 2020 and 2019, the following losses were recognised in profit or loss in relation to impaired financial assets and contract assets:

	<b>Six months ended 30 June</b>	
	<b>2020</b> <b>Unaudited</b> <b>RMB'000</b>	2019 Unaudited RMB'000 (restated)
Impairment losses		
— movement in loss allowance for financial assets and contract assets	<b>(4,456)</b>	(7,740)
Net impairment losses on financial assets and contract assets	<b>(4,456)</b>	(7,740)

Impairment losses on trade receivables, retention receivables, long-term trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

##### (iii) Financial guarantees

The Group granted financial guarantees to its related party and third parties with maximum exposure to credit risk as follows:

	<b>As at</b>	
	<b>30 June</b> <b>2020</b> <b>Unaudited</b> <b>RMB'000</b>	31 December 2019 Audited RMB'000
Credit risk exposure relating to off-balance sheet items		
— Financial guarantees to third parties	—	20,000

Management has established limits on the financial guarantee contract to be granted and expects that no material liabilities will arise from the financial contracts. The Group has determined that the corporate guarantees had insignificant fair values as at 30 June 2020 and 31 December 2019.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### 4.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
<b>At 31 December 2019 (audited)</b>					
Bank borrowings	31,938	5,948	17,846	10,104	65,836
Lease liabilities	2,053	1,306	1,471	3,328	8,158
Trade and other payables	2,253,294	85,381	194,738	38,882	2,572,295
Financial guarantees (off-balance sheet items) (Note 4.1(b))	20,000	—	—	—	20,000
	<u>2,307,285</u>	<u>92,635</u>	<u>214,055</u>	<u>52,314</u>	<u>2,666,289</u>
	<b>Less than 1 year RMB'000</b>	<b>Between 1 and 2 years RMB'000</b>	<b>Between 2 and 5 years RMB'000</b>	<b>Over 5 years RMB'000</b>	<b>Total RMB'000</b>
<b>At 30 June 2020 (unaudited)</b>					
Bank borrowings	<b>31,859</b>	<b>6,081</b>	<b>17,458</b>	<b>7,358</b>	<b>62,756</b>
Lease liabilities	<b>1,825</b>	<b>1,056</b>	<b>1,084</b>	<b>2,955</b>	<b>6,920</b>
Trade and other payables	<b>2,022,811</b>	<b>179,161</b>	<b>148,070</b>	<b>30,445</b>	<b>2,380,487</b>
	<u><b>2,056,495</b></u>	<u><b>186,298</b></u>	<u><b>166,612</b></u>	<u><b>40,758</b></u>	<u><b>2,450,163</b></u>

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 4 FINANCIAL RISK MANAGEMENT (Continued)

#### 4.3 Fair value estimation

##### (a) Financial assets and liabilities

##### (i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

##### Recurring fair value measurements

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>At 30 June 2020 (unaudited)</b>				
Financial assets at fair value through profit or loss	—	—	50	50
Financial assets at fair value through other comprehensive income	3,766	—	—	3,766
	<b>3,766</b>	<b>—</b>	<b>50</b>	<b>3,816</b>

##### Recurring fair value measurements

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>At 31 December 2019 (audited)</b>				
Financial assets at fair value through profit or loss	—	—	50	50
Financial assets at fair value through other comprehensive income	—	—	4,844	4,844
	<b>—</b>	<b>—</b>	<b>4,894</b>	<b>4,894</b>

## 4 FINANCIAL RISK MANAGEMENT (Continued)

### 4.3 Fair value estimation (Continued)

#### (a) Financial assets and liabilities (Continued)

##### (i) Fair value hierarchy (Continued)

There were no transfers between levels 1, 2, and 3 for recurring fair value measurements during the year.

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

##### (ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- for other financial instruments discounted cash flow analysis.

The finance manager of the Group performs valuation on these level 3 instruments for financial reporting purposes. On an annual basis, the team adopts various valuation techniques to determine the fair value of the Group's level 3 instrument.

As at 31 December 2019, the level 3 instrument of the Group mainly includes investment in listed securities and investments in a wealth management product. The equity instrument is held with a lock-up for six months from the listing date of the investee. In that case the fair value of the instrument would be measured on the basis of the quoted price for an otherwise identical unrestricted equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. As at 30 June 2020, the lock-up period expired and accordingly the fair value of the equity instrument is based on quoted market price at the end of this period. The instrument is included in level 1.

# Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

## 4 FINANCIAL RISK MANAGEMENT (Continued)

### 4.3 Fair value estimation (Continued)

#### (a) Financial assets and liabilities (Continued)

##### (ii) Valuation techniques used to determine fair values (Continued)

As the instrument in a wealth management product is not traded in an active market, its fair value has been determined using various applicable valuation techniques, including discounted cash flows approach and comparable transaction approach, etc. Major assumptions used in the valuation include historical financial results, assumptions about future growth rates, recent market transactions and other exposure.

The Group used discounted cash flows approach to value the fair value of the instrument as at year end, which is approximately to the cost. The fair value changes of the instrument are immaterial due to the short period and low expected return rate. Accordingly, the sensitivity to changes in unobservable inputs is not material.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

## 6 SEGMENT INFORMATION

### (a) Description of segments and principal activities

The chief operating decision-maker has been identified as the executive directors. The Group's management evaluates the Group's performance both from a service and geographic perspective.

In prior years, the original business analysis of the Group was mainly divided into two reportable segments, namely the ports infrastructure segment and the waterway engineering segment.

In view of the acquisition of municipal public construction business and downsizing of waterway engineering segment in 2019, the Group's executive directors consider it more informative and reflective of underlying business realities to present the business performance analysis of the Group according to the following categories:

- (i) Marine construction, including infrastructure construction of ports, waterway engineering and other services; and
- (ii) Municipal public construction, including construction of public infrastructure within cities, urban greening and construction of buildings.



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 6 SEGMENT INFORMATION (Continued)

#### (a) Description of segments and principal activities (Continued)

The executive directors assess the performance of the business segments based on profit for the period, which is consistent with that in the condensed consolidated financial information.

Segment assets and liabilities are measured in the same way as in the consolidated financial information. These assets are allocated based on the operations of the segment and the physical location of the asset. These liabilities are allocated based on the operations of the segment.

#### (b) Segment results and other information

The revenue from customers is measured in the same way as in the condensed consolidated interim statement of comprehensive income.

The segment information for the six months ended 30 June 2020 is as follows:

	<b>Six months ended 30 June 2020 (unaudited)</b>			
	<b>Marine construction RMB'000</b>	<b>Municipal public construction RMB'000</b>	<b>Inter- segment elimination RMB'000</b>	<b>Total RMB'000</b>
Revenue	181,449	465,375	(43,992)	602,832
Cost of sales	(156,063)	(416,722)	43,992	(528,793)
Gross profit	25,386	48,653	—	74,039
Unallocated item:				
Operating expenses				(47,093)
Other income				2,212
Other gains — net				1,570
Finance costs — net				(4,424)
Profit before income tax				26,304
Income tax expense (Note 8)				(3,069)
Profit for the period				23,235
Segment items included:				
Depreciation and amortisation	(5,613)	(3,397)	—	(9,010)
Net impairment losses on financial assets (Note 4.1)	(8,590)	4,134	—	(4,456)

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 6 SEGMENT INFORMATION (Continued)

#### (b) Segment results and other information (Continued)

The segment assets and liabilities as at 30 June 2020 are as follows:

	As at 30 June 2020 (unaudited)			Total RMB'000
	Marine construction RMB'000	Municipal public construction RMB'000	Inter- segment elimination RMB'000	
Total assets	1,919,402	1,388,870	(60,019)	3,248,253
Total liabilities	1,422,292	1,229,187	(60,019)	2,591,460

The segment information for the six months ended 30 June 2019 is as follows:

	Six months ended 30 June 2019 (restated) (unaudited)		
	Marine construction RMB'000	Municipal public construction RMB'000	Total RMB'000
Revenue	469,319	392,347	861,666
Cost of sales	(397,005)	(355,770)	(752,775)
Gross profit	72,314	36,577	108,891
Unallocated item:			
Operating expenses			(55,993)
Other income			4,038
Other gains — net			322
Finance costs — net			(6,533)
Profit before income tax			50,725
Income tax expense (Note 8)			(5,957)
Profit for the period			44,768
Segment items included:			
Depreciation and amortisation	(6,719)	(3,209)	(9,928)
Net impairment losses on financial assets (Note 4.1)	(9,308)	1,568	(7,740)

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 6 SEGMENT INFORMATION (Continued)

#### (b) Segment results and other information (Continued)

The segment assets and liabilities as at 31 December 2019 are as follows:

	As at 31 December 2019 (audited)			
	Marine construction RMB'000	Municipal public construction RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Total assets	2,009,846	1,430,965	(15,467)	3,425,344
Total liabilities	1,502,746	1,284,002	(15,467)	2,771,281

Certain comparative amounts have been reclassified to conform to the current period's presentation. These reclassifications only impacted the reclassification of the consolidated statement of comprehensive income, and had no effect on reported total assets, liabilities, equity or net profit.

#### (c) Revenue from contract with customers and cost of sales

Revenue from customers by region, based on the location of the customers:

	For the six months ended 30 June (unaudited)						
	2020				2019 (restated)		
	Maritime and ports infrastructure RMB'000	Municipal public construction RMB'000	Inter- segment elimination RMB'000	Total RMB'000	Maritime and ports infrastructure RMB'000	Municipal public construction RMB'000	Total RMB'000
<b>Mainland China</b>							
Revenue	139,131	465,375	(43,992)	560,514	351,796	392,347	744,143
Cost of sales	(118,064)	(416,722)	43,992	(490,794)	(302,340)	(355,770)	(658,110)
	<u>21,067</u>	<u>48,653</u>	<u>—</u>	<u>69,720</u>	<u>49,456</u>	<u>36,577</u>	<u>86,033</u>
<b>Southeast Asia</b>							
Revenue	42,318	—	—	42,318	117,523	—	117,523
Cost of sales	(37,999)	—	—	(37,999)	(94,665)	—	(94,665)
	<u>4,319</u>	<u>—</u>	<u>—</u>	<u>4,319</u>	<u>22,858</u>	<u>—</u>	<u>22,858</u>

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 6 SEGMENT INFORMATION (Continued)

#### (c) Revenue from contract with customers and cost of sales (Continued)

Non-current assets, other than non-current receivables, contract assets, financial assets at fair value through other comprehensive income and deferred tax assets, by territory:

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Mainland China	103,583	108,596
Southeast Asia	16,256	19,217
Total	<b>119,839</b>	127,813

#### (d) Contract assets and liabilities

The Group recognised the following assets and liabilities relating to contract with customers:

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
<b>Contract assets</b>		
Current portion		
Marine construction	332,540	292,645
Municipal public construction	220,001	233,174
Less: allowance for impairment of contract assets (Note 4.1(b))	<b>(8,273)</b>	(9,015)
	<b>544,268</b>	516,804
Non-current portion		
Marine construction	63,941	182,025
Municipal public construction	228,332	170,685
Less: allowance for impairment of contract assets (Note 4.1(b))	<b>(6,037)</b>	(6,177)
	<b>286,236</b>	346,533
<b>Total contract assets</b>	<b>830,504</b>	863,337
<b>Contract liabilities</b>		
Marine construction	22,028	2,186
Municipal public construction	28,771	12,195
<b>Total contract liabilities</b>	<b>50,799</b>	14,381

**6 SEGMENT INFORMATION** (Continued)**(d) Contract assets and liabilities** (Continued)**(i) Significant changes in contract assets and liabilities**

The contract assets are the Group's right to consideration in the exchange for services that the Group has transferred to customers. The contract assets transferred to trade and retention receivables when receipt of the consideration is conditional only on the passage of time.

The Group expects that contract assets have the same risk characteristics as trade receivables. The impairment of contract assets does not have significant impact on the Group. The impairment of contract assets is disclosed in Note 4.1(b).

The contract liabilities above are due to the non-refundable advance payment made by customers. Such liabilities fluctuate as a result of the terms of different projects. A contract liability is the Group's obligation to render services to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pays consideration but before the Group renders service to the customer.

Due to the completion of the construction, approximately RMB98,651,000 and RMB340,240,000 of contract assets were transferred to trade receivables, while approximately RMB14,980,000 and RMB142,915,000 of contract assets were transferred to retention receivables during the six months ended 30 June 2020 and year ended 31 December 2019.

**7 OPERATING PROFIT**

The following items have been charged to the six months periods ended 30 June 2020 and 2019.

	<b>Six months ended 30 June</b>	
	<b>2020</b> <b>Unaudited</b> <b>RMB'000</b>	2019 Unaudited RMB'000 (restated)
Raw materials and consumables used	<b>297,567</b>	471,815
Subcontracting costs	<b>179,386</b>	232,435
Wages and salaries, social welfare and benefits, including directors' emoluments	<b>22,412</b>	24,835
Operating lease payment	<b>27,812</b>	19,698
Depreciation of property, plant and equipment (Note 10)	<b>7,951</b>	9,336
Depreciation and amortisation of right-of-use assets	<b>934</b>	475
Amortisation of intangible assets	<b>125</b>	117



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 8 INCOME TAX EXPENSE

The amounts of tax expense charged to the condensed consolidated interim statement of comprehensive income represent:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
		(restated)
Current income tax	<b>3,871</b>	8,919
Deferred income tax	<b>(802)</b>	(2,962)
Income tax expense — net	<b>3,069</b>	5,957

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the entity operates. The decrease in income tax expense during the period is due to the impact of adjustment for current income tax expense of prior year.

#### (a) Cayman Islands profit tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and is exempted from payment of the Cayman Islands income tax.

#### (b) British Virgin Islands (“BVI”) profits tax

The Company’s subsidiaries incorporated in the BVI are exempted from BVI income tax, as they are incorporated under the International Business Companies Act of the BVI.

#### (c) Hong Kong profits tax

One of the Company’s subsidiaries incorporated in Hong Kong, is subject to Hong Kong profits tax. The applicable Hong Kong profits tax rate is 16.5% for the six months ended 30 June 2020 and 2019.

#### (d) PRC corporate income tax (“CIT”)

The Group’s subsidiaries in the PRC are subject to PRC CIT which is calculated based on the applicable tax rate of 25% (2019: 25%) on the assessable profits of the subsidiaries in accordance with PRC tax laws and regulations, except for one as disclosed below.

Third Harbor Maritime, a subsidiary of the Group, is approved to be new and high-technology enterprise since the year ended 31 December 2019 and is entitled to a preferential income tax rate of 15%. The certificate of new and high-technology enterprise is subject to renewal for each three-year interval.

**8 INCOME TAX EXPENSE** (Continued)**(e) Brunei income tax**

One of the Company's subsidiaries incorporated in Brunei is subject to Brunei income tax. The applicable Brunei income tax rate is 18.5% for the six months ended 30 June 2020 and 2019.

**(f) Indonesia income tax**

One of the Company's subsidiaries incorporated in Indonesia is subject to Indonesia income tax. Indonesia income tax is charged through a system of withholding taxes. The customers of the Group are required to withhold final income tax for construction services and the banks are required to withhold final income tax on interest income from bank deposits. For the six months ended 30 June 2020 and 2019, income tax was provided at the rate of 3% on the construction and income tax of 20% was provided on the interest income from bank deposits, according to respective Indonesia income tax laws and regulations.

**9 BASIC AND DILUTED EARNINGS PER SHARE****(a) Basic earnings per share**

The calculation of the basic earnings per share is based on the profit for the six months period ended 30 June 2020 and 2019 attributable to the Shareholders of the Company and the weighted average number of ordinary shares in issue.

	<b>Six months ended 30 June</b>	
	<b>2020</b> <b>Unaudited</b>	2019 Unaudited (restated)
Profit attributable to the Shareholders of the Company (RMB'000)	<b>23,235</b>	44,768
Weighted average number of ordinary shares in issue (thousands)	<b>825,263</b>	825,400
Total basic earnings per share attributable to the ordinary equity holders of the Group (RMB cents)	<b>2.82</b>	5.42

**(b) Diluted earnings per share**

Diluted earnings per share is of the same amount as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 30 June 2020 and 2019.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 10 PROPERTY, PLANT AND EQUIPMENT

	Industrial machinery and equipment <i>RMB'000</i>	Transport equipment <i>RMB'000</i>	Buildings <i>RMB'000</i>	Office supplies and electronic equipment <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At 1 January 2019</b>						
Cost, as restated	177,246	14,618	6,886	3,548	5	202,303
Accumulated depreciation, as restated	(80,237)	(10,878)	(1,407)	(2,955)	—	(95,477)
Net book amount, as restated	97,009	3,740	5,479	593	5	106,826
<b>Six months ended 30 June 2019</b>						
Opening net book amount, as previously reported	73,028	2,454	—	435	—	75,917
Business combination under common control ( <i>Note 3</i> )	23,981	1,286	5,479	158	5	30,909
Opening net book amount, as restated	97,009	3,740	5,479	593	5	106,826
Additions	3,047	—	—	71	427	3,545
Depreciation charge	(7,608)	(1,144)	(476)	(108)	—	(9,336)
Currency translation differences	438	5	—	3	—	446
<b>Closing net book amount</b>	<b>92,886</b>	<b>2,601</b>	<b>5,003</b>	<b>559</b>	<b>432</b>	<b>101,481</b>
<b>At 30 June 2019</b>						
Cost	180,966	14,629	6,886	3,623	432	206,536
Accumulated depreciation	(88,080)	(12,028)	(1,883)	(3,064)	—	(105,055)
<b>Net book amount</b>	<b>92,886</b>	<b>2,601</b>	<b>5,003</b>	<b>559</b>	<b>432</b>	<b>101,481</b>

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 10 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Industrial machinery and equipment RMB'000	Transport equipment RMB'000	Buildings RMB'000	Office supplies and electronic equipment RMB'000	Construction- in-progress RMB'000	Total RMB'000
<b>At 1 January 2020</b>						
Cost	197,781	15,152	7,575	3,372	—	223,880
Accumulated depreciation	(95,537)	(12,531)	(2,382)	(2,802)	—	(113,252)
Net book amount	102,244	2,621	5,193	570	—	110,628
<b>Six months ended 30 June 2020</b>						
Opening net book amount	102,244	2,621	5,193	570	—	110,628
Additions	564	—	—	147	585	1,296
Transfer to construction-in-progress (a)	(8,348)	(333)	—	—	8,681	—
Depreciation charge	(6,731)	(518)	(539)	(163)	—	(7,951)
Disposals	(11)	(16)	—	—	—	(27)
Currency translation differences	(70)	—	—	(1)	(159)	(230)
<b>Closing net book amount</b>	<b>87,648</b>	<b>1,754</b>	<b>4,654</b>	<b>553</b>	<b>9,107</b>	<b>103,716</b>
<b>At 30 June 2020</b>						
Cost	180,235	14,060	7,575	3,459	9,107	214,436
Accumulated depreciation	(92,587)	(12,306)	(2,921)	(2,906)	—	(110,720)
<b>Net book amount</b>	<b>87,648</b>	<b>1,754</b>	<b>4,654</b>	<b>553</b>	<b>9,107</b>	<b>103,716</b>

(a) The Group transferred their fixed assets of Pahaytc & Benteng JV Sdn Bhd to construction in progress after the completion of the first part of the construction work under the Brunei Petrochemical Engineering Port Project — Supporting and Pile Foundation Construction (the “**Brunei Supporting Project**”) for upgrading in consideration of the efficiency and construction quality in the subsequent projects. The upgrading is expected to extend the life of the fixed assets and improve their operating efficiency, in order to have a better performance in the second part of the construction work under the Brunei Supporting Project.

During the six months ended 30 June 2020 and 2019, the amounts of depreciation expenses charged to “Cost of sales”, “Administrative expenses”, “Other operating expenses” and “Selling and distribution expenses” are as follows:

	Six months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000 (restated)
Cost of sales	4,717	8,314
Administrative expenses	3,116	1,003
Other operating expenses	110	14
Selling and distribution expenses	8	5
	<b>7,951</b>	<b>9,336</b>

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 11 TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade receivables (i)	1,206,089	1,404,877
Less: allowance for impairment of trade receivables	(51,472)	(52,196)
Trade receivables — net	<u>1,154,617</u>	<u>1,352,681</u>
Retention receivables (ii)	293,331	307,927
Less: allowance for impairment of retention receivables	(30,078)	(24,072)
Retention receivables — net	<u>263,253</u>	<u>283,855</u>
Bills receivables (i)	15,199	26,145
Long-term trade receivables (iii, iv)	56,090	57,738
Less: allowance for impairment of long-term trade receivables	(1,831)	(1,773)
Long-term trade receivables-net	<u>54,259</u>	<u>55,965</u>
Other receivables	65,700	67,966
Prepayments	117,808	70,078
Prepaid taxation	720	147
	<u>1,671,556</u>	<u>1,856,837</u>
Less: non-current portion		
Retention receivables (ii)	(57,020)	(59,496)
Long-term trade receivables (iii, iv)	(50,981)	(52,767)
Other receivables	(3,754)	(1,833)
	<u>(111,755)</u>	<u>(114,096)</u>
Current portion	<u>1,559,801</u>	<u>1,742,741</u>

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 11 TRADE AND OTHER RECEIVABLES (Continued)

- (i) The Group's revenues are generated through marine construction services and municipal public construction services. Settlements are made in accordance with the terms specified in the contracts governing the relevant transactions. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, certain customers may have large trade receivables balances, there may be concentration of credit risk. The customers of certain long ageing trade and retention receivables are related to some large projects and the customers have strong financial capacity with low credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables balances.

The carrying amounts of trade and retention receivables approximate their fair value as at 30 June 2020 and 31 December 2019.

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade and bills receivables based on the payment requests acknowledged by the customers is as follows:

	<b>As at</b>	
	<b>30 June 2020 Unaudited RMB'000</b>	31 December 2019 Audited RMB'000
Within 3 months	<b>204,474</b>	463,023
4 to 6 months	<b>81,096</b>	180,333
7 to 12 months	<b>444,004</b>	229,522
1 to 2 years	<b>251,256</b>	291,746
2 to 3 years	<b>113,200</b>	162,261
Over 3 years	<b>127,258</b>	104,137
	<b>1,221,288</b>	1,431,022



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 11 TRADE AND OTHER RECEIVABLES (Continued)

- (ii) Retention receivables represent amounts due from customers upon completion of the free maintenance period of the construction services, which normally lasts from one to five years, and the maintenance cost is usually immaterial during that period. In the consolidated statement of financial position, retention receivables are classified as current assets if they are expected to be received in one year or less. If not, they are presented as non-current assets. The ageing of the retention receivables is as follows:

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Within 1 year	100,081	153,589
1 to 2 years	67,086	25,198
2 to 3 years	60,288	77,759
3 to 4 years	33,398	19,625
4 to 5 years	5,293	19,007
Over 5 years	27,185	12,749
	<b>293,331</b>	307,927

The credit terms granted to customers by the Group are usually 30 to 60 days.

- (iii) Long-term trade receivables represent amounts due from customers for services performed relating to a public-private-partnership with quarterly instalment in fifteen years. Long-term trade receivables were measured at amortised cost using the effective interest method at average rate of 5.39%.
- (iv) As at 30 June 2020, the Group pledged long-term trade receivables with carrying amount of approximately RMB54,259,000 (2019: RMB55,965,000) for the bank borrowings amounted to RMB31,250,000 (2019: RMB33,500,000) as disclosed in Note 15.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 12 CASH AND CASH EQUIVALENTS

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Cash on hand	145	315
Cash at bank	584,300	530,419
Less: Restricted cash	(69,820)	(59,023)
	<b>514,625</b>	<b>471,711</b>

The restricted cash represents the following balances:

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Deposits for wages of migrant labours	41,434	18,477
Deposits for issuing bank acceptance notes	11,200	11,756
Cash for specific project expenditure	8,774	19,867
Deposits for issuing letter of guarantee	8,412	8,923
	<b>69,820</b>	<b>59,023</b>

### 13 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Number of issued and fully paid shares	Amount		
			Equivalent nominal value of ordinary share Unaudited RMB'000	Share premium Unaudited RMB'000	Total Unaudited RMB'000
As at 1 January 2019 and 30 June 2019	10,000,000,000	825,400,000	7,303	322,551	329,854
As at 1 January 2020	<b>10,000,000,000</b>	<b>825,400,000</b>	<b>7,303</b>	<b>313,609</b>	<b>320,912</b>
Dividends	—	—	—	(16,612)	(16,612)
As at 30 June 2020	<b>10,000,000,000</b>	<b>825,400,000</b>	<b>7,303</b>	<b>296,997</b>	<b>304,300</b>

The total number of issued share capital of the Company comprised 825,400,000 ordinary shares with a par value of HK\$0.01 each as at 30 June 2020 and 2019.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 14 TRADE AND OTHER PAYABLES

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade payables (i)	1,235,160	1,468,289
Bills payables (i)	30,901	29,390
Retention payables (ii)	279,759	297,211
Long-term payables (iii)	700,175	659,987
Payroll and social security	13,598	13,941
Other payables	85,132	84,924
Dividends payable	16,612	—
Other tax liabilities excluding income tax liabilities	113,381	121,122
	<b>2,474,718</b>	2,674,864
<b>Less: non-current portion</b>		
Retention payables (ii)	(124,870)	(136,392)
Long-term payables (iii)	(185,450)	(160,493)
Other payables	(17,000)	(5,000)
	<b>(327,320)</b>	(301,885)
<b>Current portion</b>	<b>2,147,398</b>	2,372,979

(i) The Group's trade and bills payables are mainly denominated in the RMB.

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade and bills payables based on the payment requests or demand notes is as follows:

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Within 3 months	420,385	784,262
4 to 6 months	83,317	167,860
7 to 12 months	383,546	120,911
1 to 2 years	195,787	213,158
2 to 3 years	75,184	127,780
Over 3 years	107,842	83,708
	<b>1,266,061</b>	1,497,679

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 14 TRADE AND OTHER PAYABLES (Continued)

- (ii) Retention payables represent amounts due to suppliers upon completion of the free maintenance period of the construction services, which normally lasts from one to five years. In the consolidated statement of financial position, retention payables are classified as current liabilities if they will be required to be paid in one year or less. If not, they are presented as non-current liabilities. The ageing of the retention payables is as follows:

	<b>As at</b>	
	<b>30 June 2020 Unaudited RMB'000</b>	31 December 2019 Audited RMB'000
Within 1 year	<b>46,657</b>	131,186
1 to 5 years	<b>198,939</b>	136,972
Over 5 years	<b>34,163</b>	29,053
	<b>279,759</b>	297,211

- (iii) Long-term payables mainly consist of long-term trade payables and amount due to Watts Gallop of approximately RMB70,706,000, representing unsettled consideration for the acquisition of the Acquired Group. Long-term trade payables represent amounts due to suppliers for certain construction services with unbilled payables and the expected billing period is over one year. For some suppliers, usually 10% to 35% of the payments will be paid upon the completion of the construction and 5% to 10% of the payments will be paid after the warranty period expires. Long-term payables are measured at amortised cost using the effective interest method at the average rate from 4.35% to 5.01%. In the consolidated statement of financial position, long-term payables are classified as current liabilities if they will be required to be paid in one year or less. If not, they are presented as non-current liabilities. The ageing analysis of the long-term payables is as follows:

	<b>As at</b>	
	<b>30 June 2020 Unaudited RMB'000</b>	31 December 2019 Audited RMB'000
Within 1 year	<b>267,456</b>	291,539
1 to 5 years	<b>413,720</b>	350,455
Over 5 years	<b>18,999</b>	17,993
	<b>700,175</b>	659,987

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 15 BORROWINGS

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
<b>Non-current</b>		
Long-term bank borrowings — Secured (i)	26,750	29,000
<b>Current</b>		
Long-term bank borrowings due within one year-Secured (i)	4,500	4,500
Short-term bank borrowings — Secured (ii)	25,000	25,000
<b>Total borrowings</b>	<b>56,250</b>	<b>58,500</b>

The loan is a fixed rate, RMB dominated loan which is carried at amortised cost. It therefore did not have any impact on the Group's exposure to foreign exchange and cash flow interest rate risk.

- (i) As at 30 June 2020, the secured long-term bank borrowings of RMB31,250,000 were guaranteed by Zhejiang Kexin Engineering Materials Co., Ltd. (“**Zhejiang Kexin**”), a third party, and were secured by the pledge of long-term trade receivables carrying amount of approximately RMB54,259,000 (Note 11).

As at 31 December 2019, the secured long-term bank borrowings of RMB33,500,000 were guaranteed by Zhejiang Kexin and were secured by the pledge of long-term trade receivables carrying amount of approximately RMB55,965,000 (Note 11).

- (ii) As at 30 June 2020 and 31 December 2019, the secured short-term borrowings of RMB25,000,000 were guaranteed by Watts Gallop.

Movements in borrowings are analysed as follows:

	Unaudited RMB'000
<b>Six months ended 30 June 2019</b>	
Opening amount as at 1 January 2019, as restated	40,000
New borrowings, as restated	20,000
Repayments of borrowings, as restated	(2,000)
Closing amount as at 30 June 2019, as restated	58,000
<b>Six months ended 30 June 2020</b>	
Opening amount as at 1 January 2020 (audited)	58,500
New borrowings	20,000
Repayments of borrowings	(22,250)
Closing amount as at 30 June 2020 (unaudited)	56,250

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 16 DIVIDENDS

At a meeting held on 26 March 2020, the Board proposed a final dividend of HK2.20 cents cents (equivalent to RMB 2.01 cents) per share for the year ended 31 December 2019. This proposed dividend, representing total amount of approximately HK\$18,159,000 (equivalent to RMB16,612,000), was reflected as an appropriation of share premium for the six months ended 30 June 2020 upon approval by the Shareholders at the annual general meeting of the Company held on 18 June 2020. This final dividend has been paid in July 2020.

At a meeting held on 27 August 2020, the Board resolved to declare an interim dividend of HK0.80 cent (equivalent to RMB0.73 cent) per share, representing total amount of approximately HK\$6,603,000 (equivalent to RMB6,032,000). This interim dividend has not been recognised as a dividend payable in this condensed interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2020.

### 17 COMMITMENTS

#### (a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	<b>As at</b>	
	<b>30 June 2020 Unaudited RMB'000</b>	31 December 2019 Audited RMB'000
Property, plant and equipment	<b>7,680</b>	—

#### (b) Non-cancellable operating leases

##### **As lessee**

The Group leases various offices and land under non-cancellable operating leases expiring within one to three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases.

Minimum lease payments under non-cancellable operating leases not recognised in the financial statements are payable as follows:

	<b>As at</b>	
	<b>30 June 2020 Unaudited RMB'000</b>	31 December 2019 Audited RMB'000
No later than 1 year	<b>451</b>	1,310
Later than 1 year and no later than 2 years	<b>300</b>	300
Later than 2 years and less than 3 years	<b>—</b>	150
	<b>751</b>	1,760



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 17 COMMITMENTS (Continued)

#### (b) Non-cancellable operating leases (Continued)

##### As lessor

As at 30 June 2020 and 31 December 2019, the Group had the following total future minimum lease receivables under the non-cancellable operating leases falling due as follows:

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
No later than 1 year	1,932	1,932
Later than 1 year and no later than 2 years	1,932	1,932
Later than 2 years and less than 3 years	966	1,932
	<b>4,830</b>	5,796

### 18 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2020 and 2019, and balances arising from related party transactions as at the respective balance sheet dates.

**18 RELATED PARTY TRANSACTIONS** (Continued)

Name and relationship with related parties are set out below:

Related party	Relationship
Shanghai Third Harbor Benteng Construction and Engineering Co., Ltd. (" <b>Third Harbor Construction</b> ")	Controlled by the same ultimate controlling shareholder
Watts Gallop	Controlled by the same ultimate controlling shareholder
Mr. Wang Shizhong	Non-executive director of the Company
Mr. Wang Shiqin	Brother of Mr. Wang Shizhong
Ms. Xiong Guihua	Wife of Mr. Wang Shiqin
Zhejiang Zhoushan Benteng Construction Material Co., Ltd. (" <b>Zhoushan Benteng</b> ")	Subsidiary of Watts Gallop
Jiangsu Shenyu Port Engineering Co., Ltd. (" <b>Jiangsu Shenyu</b> ")	Subsidiary of Watts Gallop
Zhejiang Benteng Transportation Engineering Co., Ltd. (" <b>Benteng Transportation</b> ")	Associate of Watts Gallop
Fuyang Benteng Labour Service Co., Ltd. (" <b>Benteng Labour</b> ")	Controlled by the same ultimate controlling shareholder before July 2019
Zhejiang Watts Gallop Real Estate Development Co., Ltd. (" <b>Watts Gallop Real Estate</b> ")	Controlled by the same ultimate controlling shareholder
Zhejiang Sanmei Real Estate Development Co., Ltd. (" <b>Zhejiang Sanmei</b> ")	Subsidiary of Watts Gallop Real Estate
Hangzhou Huazi Greentown Real Estate Co., Ltd. (" <b>Hangzhou Huazi Greentown</b> ")	Subsidiary of Watts Gallop Real Estate
Hangzhou Fuyang Huazi Zhongwang Real Estate Co., Ltd. (" <b>Huazi Zhongwang</b> ")	Subsidiary of Watts Gallop Real Estate
Hangzhou Fuchun Rose Manor Hotel Co., Ltd. (" <b>Fuchun Rose Hotel</b> ")	Subsidiary of Watts Gallop Real Estate
Jiangsu Watts Energy & Engineering Co., Ltd. (" <b>Watts Energy &amp; Engineering</b> ")	Subsidiary of Watts Gallop
Zhejiang Zhongjiao Tonglu Construction Co., Ltd. (" <b>Zhongjiao Tonglu</b> ")	Subsidiary of Watts Gallop
Hangzhou Fuyang Chenfan Building Materials Business Department (" <b>Fuyang Chenfan</b> ")	Controlled by Ms. Xiong Guihua

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 18 RELATED PARTY TRANSACTIONS (Continued)

#### (a) Transactions with related parties

Save as disclosed elsewhere in these financial statements, during the six months ended 30 June 2020 and 2019, the following transactions were carried out with related parties at terms mutually agreed by both parties:

##### (i) Provision of construction services

	Six months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000 (restated)
<b>Continuing connected transactions</b>		
— Hangzhou Huazi Greentown (a)	17,286	—
<b>Discontinued transactions</b>		
— Hangzhou Huazi Greentown (b)	—	23,783
— Benteng Transportation (c)	—	4,738
— Zhejiang Sanmei (b)	—	53,982
	—	82,503
	<b>17,286</b>	<b>82,503</b>

- (a) The Group has entered into the Greentown Fuchun Rose Garden phase 2 zone 3 Construction Agreement with Hangzhou Huazi Greentown for providing building construction services in July 2019.
- (b) The Group has entered into construction services agreement and provided building construction services to these related parties during the six months ended 30 June 2020 and 2019.
- (c) The Group has entered into construction services agreement and provided public infrastructure construction services to the related party during the six months ended 30 June 2020 and 2019.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 18 RELATED PARTY TRANSACTIONS (Continued)

#### (a) Transactions with related parties (Continued)

##### (ii) Purchases of goods and services

	Six months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000 (restated)
<b>Continuing connected transactions</b>		
Purchasing raw materials		
— Watts Energy & Engineering	1,320	—
<b>Discontinued transactions</b>		
Subcontracting cost		
— Benteng Labour	—	92,673
Purchasing raw materials		
— Fuyang Chenfan	—	829
— Watts Energy & Engineering	—	30
		93,532
	1,320	93,532

##### (iii) Rental from related parties

	Six months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000
— Third Harbor Construction	192	254

The related party transactions above were carried out on terms mutually agreed between the parties. In the opinion of the directors of the Company, these transactions were in the ordinary course of business of the Group and in accordance with terms of the underlying agreements.

##### (iv) Key management compensation

Key management includes directors and senior management. The compensation paid or payable to key management for employee services is shown below:

	Six months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000
Salaries, wages and allowances	1,962	1,790
Pension costs	80	141
Bonuses	62	231
	2,104	2,162

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 18 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Balances with related parties

##### (i) Amounts due from related parties

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade and retention receivables		
— Hangzhou Huazi Greentown	52,142	166,399
— Zhejiang Sanmei	46,883	84,241
— Benteng Transportation	13,258	18,922
— Third Harbor Construction	4,346	4,346
— Watts Energy & Engineering	4,287	5,787
— Zhongjiao Tonglu	1,352	1,352
— Watts Gallop Real Estate	660	660
— Huazi Zhongwang	204	676
— Fuchun Rose Hotel	171	171
	<b>123,303</b>	<b>282,554</b>

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Contract assets		
— Hangzhou Huazi Greentown	8,908	5,257

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Other receivables		
— Benteng Transportation	1,169	1,169
— Hangzhou Huazi Greentown	100	100
	<b>1,269</b>	<b>1,269</b>

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 18 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Balances with related parties (Continued)

##### (ii) Amounts due to related parties

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Trade and retention payables		
— Jiangsu Shenyu	16,415	16,915
— Zhoushan Benteng	11,402	11,171
— Watts Energy & Engineering	1,350	30
— Fuyang Chenfan	—	109
	<b>29,167</b>	<b>28,225</b>

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Other payables		
— Watts Gallop	—	1,589

	As at	
	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Long-term payables		
— Watts Gallop (Note 3)	75,510	75,510

The above balances are unsecured, interest free and receivable/repayable on demand, except for long-term payables. The carrying amount of the balances appropriated their fair value as at 30 June 2020 and 31 December 2019.



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

### 18 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Balances with related parties (Continued)

##### (iii) Guarantees

As at 30 June 2020 and 31 December 2019, the Group has been guaranteed by related parties as follows:

	<b>As at</b>	
	<b>30 June 2020 Unaudited RMB'000</b>	31 December 2019 Audited RMB'000
— Watts Gallop	<b>170,000</b>	170,000

#### (c) Other matters

During the six months ended 30 June 2019, one project in maritime construction segment recognised RMB50,229,000 in revenue and RMB7,089,000 in gross profit from an independent third-party main contractor, and the property owner of the project is a related party of the Group.

### 19 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Except for the interim dividends disclosed in Note 16, there were no other material subsequent events undertaken by the Company or by the Group after 30 June 2020.

Audit Committee	the audit committee of the Company
Benteng Brunei	Pahaytc & Benteng JV Sdn Bhd, a company incorporated under the laws of Brunei with limited liability on January 2016
Benteng Indonesia	PT. Shanghai Third Harbor Benteng Construction and Engineering, a company incorporated under the laws of Indonesia on 16 September 2016 and obtained its legal entity status on 21 September 2016
BN\$ or BND	Brunei Dollars, the lawful currency of Brunei
Board	the board of Directors of the Company
Company	Watts International Maritime Engineering Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
Director(s)	the director(s) of the Company
Group	the Company and its subsidiaries from time to time
HK\$ or HK dollars	Hong Kong dollars, the lawful currency of Hong Kong
IDR	the Indonesian Rupiah, the lawful currency of Indonesia
Listing	the Company's shares were listed on the Main Board of the Stock Exchange on 19 November 2018
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
Major Currencies	RMB, HK\$, BN\$, IDR and US\$, the major currencies used by the Group in conducting its business
PRC or China	the People's Republic of China, but for the purpose of this announcement only and, unless the context otherwise requires, excluding Hong Kong Special Administrative Region of the People's Republic of China, Macau Special Administrative Region of the People's Republic of China and Taiwan
Renminbi or RMB	Renminbi, the lawful currency of the PRC
Reporting Period	six months ended 30 June 2020

## Definitions

SFO	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
Share(s)	ordinary shares of HK\$0.01 each in the share capital of the Company
Shareholder(s)	holder(s) of the Shares
Stock Exchange	The Stock Exchange of Hong Kong Limited
Third Harbor Maritime	Shanghai Third Harbor Benteng Maritime Engineering Co., Ltd.* (上海三航奔騰海洋工程有限公司), established under the laws of the PRC as a limited liability company on 14 August 2017, and a wholly-owned subsidiary of our Company
US\$, USD or US dollars	U.S. dollars, the lawful currency of U.S.

\* *For identification purposes only*